

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

February 21, 2001

The Capital Projects and Bond Oversight Committee met on Wednesday, February 21, 2001, at 9:00 AM, in Room 131 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Robert Leeper, Vice Chairman; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Ken Clevidence, Dr. Peter Timony, and Dall Clark, University of Kentucky; Cicely Lambert, Administrative Office of the Courts; Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Finance and Administration Cabinet; Commissioner Kenny Rapier and Susan Durham, Department of Parks; Debbie Milton, Kentucky Infrastructure Authority; and Gordon Mullis, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Lola Williamson Lyle, and Shawn Bowen.

Senator Leeper made a motion to approve the minutes of the January 16, 2001 meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon called on Ms. Mary Lynn Collins, Capital Projects and Bond Oversight Committee Staff Administrator, to review various correspondence and information items included in members' folders.

Chairman Haydon then introduced Mr. Ken Clevidence, Associate Vice President for Fiscal Affairs, University of Kentucky (UK), to discuss an unbudgeted project for the University.

Mr. Clevidence introduced Mr. Dall Clark, Director of Capital Projects, UK, and Dr. Peter Timony, Director of the Gluck Equine Research Center. Mr. Clevidence said the University is requesting authorization to renovate the Gluck Equine Research Center. He said the total project scope will be \$4,700,000 (\$4,300,000 private donations and \$400,000 agency funds), and approval of the request would be contingent upon approval by the Council on Postsecondary Education at its March 19 meeting. The source of the \$400,000 of agency funds is agency fund balances (salary savings). Renovations will include adding two biotechnology laboratory suites on the first floor and adding office space and meeting rooms on the second floor.

In response to a question from Representative Wayne, Mr. Clevidence said the private donations for this project have been certified.

Representative Wayne asked why this project was not included in the University's Six-Year Capital Plan. Dr. Timony said the need to renovate the Gluck Center surfaced within the last 18 months. He said additional space was needed because of the five new endowed chairs funded by the Research Trust Fund (Bucks-for-Brains Program). He said prior to a very sizeable bequest the University received approximately 18 months ago, this project was not envisioned. Dr. Timony said the University has been very successful in obtaining matching funds for the bequest and establishing additional endowed chairs in selected areas of scientific equine research.

Representative Marcotte made a motion to approve the Gluck Equine Research Center Renovation project. The motion was seconded by Senator Leeper and passed by voice vote.

Next, Ms. Cicely Lambert, Director, Administrative Office of the Courts (AOC), reported AOC's Court Facilities Standards Committee has approved a \$32,900 increase in the McLean County Courthouse project's authorized annual use allowance. The Court Facility Use Allowance Contingency Fund is to be used to fund the cost overrun. The project, which included renovation of the existing courthouse as well as construction of an annex, was authorized by the 1998 General Assembly at a scope of \$3,752,100 with a use allowance of \$219,100. The proposed revised project scope is \$3,865,000 with a use allowance of \$252,000. Ms. Lambert said program modifications have been made which resulted in a decrease of the county's occupancy of the annex. Originally, the county was to occupy 10% of the space in the new annex; under the modified plan, the state courts will occupy 100% of the annex. Ms. Lambert said the plan for the project meets AOC's rural courtroom standard.

Senator Leeper made a motion to approve the contingency allocation. The motion was seconded by Representative Wayne and passed by voice vote. Representative Damron abstained from the vote citing a potential conflict of interest.

Chairman Haydon then introduced Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss a project report submitted by the Finance and Administration Cabinet.

Mr. Hintze first reported a \$300,000 allocation from the Emergency Repair, Maintenance and Replacement Account to increase the scope of the Parks Department Technology Upgrades project. This project was approved by the 2000 General Assembly as a line-item project at a scope of \$588,000. Mr. Hintze said before the project was initially authorized, the Governor's Office for Technology was consulted and they

concurred in the proposed upgrade of the Department's computer systems. After the project was authorized, the Department of Parks realized it needed more money to purchase software.

Mr. Hintze said Emergency Account funds are not normally used for technology projects. He said they searched for other sources of funds, but no other source was suitable. He explained that they could not use the Capital Construction Contingency Account because the Department's funding request exceeded 15% of the authorized project, the threshold permitted on the use of that account and, they could not use the Department's regular operating budget funds in light of possible budget cutbacks and escalating energy costs. Mr. Hintze said the Parks Capital Maintenance and Renovation Fund was considered; however, it has not been used for technology, and there was not \$300,000 available in that fund. He said as of February 20, 2001, the unobligated balance in the Parks Capital Maintenance and Renovation Fund was \$132,519.

Representative Wayne asked why the need for a software upgrade was not identified in the 2000-02 Executive Budget. Department of Parks Commissioner Kenny Rapier said this project came late in the last session.

Representative Wayne asked why the Department chose to purchase the equipment instead of leasing it. Commissioner Rapier said it costs less to purchase the equipment than it does to lease it. In response to another question, he said it currently costs approximately \$108 per month for each of the 17 sites to maintain software and technical support; in addition, there is a \$75 per hour for after-business hours support.

Representative Marcotte asked what the expected life of the new software is. Susan Durham, Director of Technology for the Department of Parks, said it is difficult to predict the life of software because it changes so rapidly, but hopefully the life will be 3-5 years. She said the software has been tested and it is compatible with other state computer systems.

Representative Marcotte said different task forces have been formed or are proposed to study the feasibility of building new state parks. He said the state should upgrade and improve the parks it has rather than build new parks.

Senator Leeper made a motion to approve the Emergency Fund allocation. The motion was seconded by Representative Marcotte and passed by voice vote. The revised project scope is \$888,000.

Mr. Hintze then reported an allocation of \$57,000 from the Department of Corrections' Miscellaneous Maintenance Pool to fund a backup fuel supply system for new boilers at the Kentucky State Penitentiary (KSP) in Lyon County. He said this was being done in connection with an earlier action taken in November of 1999 when the Finance and Administration Cabinet allocated \$475,000 from the Emergency Repair,

Maintenance and Replacement Account to replace boilers at KSP. Mr. Hintze said once the Department started the project, they realized they also needed a backup fuel-oil supply system for the boilers which will use primarily natural gas.

Lastly, Mr. Hintze reported an allocation of \$629,900 from the Department of Fish and Wildlife Resources Land Acquisition Pool for the acquisition of 600 acres in Owen County known as the Chatfield/Chesney Property.

Chairman Haydon said no action was required for these two projects.

Chairman Haydon introduced Mr. Jim Abbott, Director, Division of Real Properties, to discuss state lease agreement modifications for the Finance and Administration Cabinet.

Mr. Abbott first reported a lease modification for lease PR-4400, Cabinet for Families and Children (CFC), Community Based Services, in Bath County. The action being taken is to correct an error made in space planning for that lease. CFC entered into a lease contract with the lessor, Mitchell Miller, for one-half of the space in a building that the lessor proposed to build. While the Division of Real Properties does most space layout (floor plans) for proposed state leases, CFC does its own space layout. Mr. Abbott said the space layout prepared by CFC failed to recognize code provisions that dealt with access to the building and life safety. To resolve the first issue, the building was reconfigured, which resulted in an additional 134 sq. ft. being added to the original lease contract. To reconcile the life safety issue, the Cabinet agreed to pay one-half of the additional cost to add a sprinkler system to the property. Mr. Abbott said in order to prevent this from happening in the future, the Division of Real Properties will review floor plans prepared by other agencies. Mr. Abbott said approximately \$9,500 will be amortized over the remaining term of the lease for the cost of the sprinkler system.

Representative Wayne asked if state landlords understand that their property must meet certain state codes when leasing to the state. Mr. Abbott said in this case what dictated the need for a sprinkler was the space planning. Normally a building of this scale would not require a sprinkler. The fire marshal inspected the building, and indicated a sprinkler system was required. Mr. Abbott said the Division of Real Properties staff are trained by the fire marshal, but the lack of a sprinkler system was an oversight which should not have happened.

Mr. Abbott then discussed a lease modification for PR-4006, CFC, Fayette County. The lessor plans to amortize \$2,500, which represents one-half of the cost to install carpet and tile in a training room at the facility. He said the Division normally does not pay for this type of replacement, but in this case, the Division requested the lessor to install a much higher grade of carpet than normally used due to the intensive use of this training area by employees.

Mr. Abbott reported a lease modification for PR-3882, Revenue Cabinet, in Franklin County. The action being taken is to amortize \$4,496 for additional electrical outlets in the building. The outlets were required in order to accommodate the local area network upgrade and new networking equipment for the Cabinet.

Representative Wayne, noting that the Cabinet has spent over \$58,000 in leasehold improvements in this building since September of 1999, asked why so much money has been invested in this building. He asked if any other alternatives were considered. Mr. Abbott said there were no alternatives. He said PR-3882 is an unusual lease, and it is probably the state's largest lease. The building contains approximately 211,000 sq. ft. and the rental rate is \$8.05 sq. ft. He said compared to current market rental rates, this is an excellent rate.

Lastly, Mr. Abbott reported ten state agency leases which have been modified to change the amount of space leased.

Representative Wayne asked why space under PR-4111-Alcoholic Beverage Control, is being increased from 462 sq. ft. to 632 sq. ft. per employee. Mr. Abbott said there was an error in the report provided to the Committee, and the lease modification provides approximately 270 sq. ft. per employee.

Chairman Haydon said no action was required for the lease modifications since all were less than \$50,000.

Ms. Debbie Milton, Secretary for the Kentucky Infrastructure Authority (KIA), presented one new project proposed for KIA assistance. Ms. Milton discussed a proposed \$1,053,589 Fund A (Federally-Assisted Wastewater Revolving Loan Fund) loan for the City of Manchester. The Fund A loan will be used to expand the wastewater treatment plant and extend sewer lines.

Representative Wayne made a motion to approve the Fund A loan for the City of Manchester. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon then called on Mr. Don Mullis, Executive Director of the Office of Financial Management, to present the agency's bond activity report. Mr. Mullis reported one new bond issue: University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series R, for \$20,564,231.

Representative Damron made a motion to approve the new bond issue. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Mullis then presented a follow-up report for the Kentucky State Property and Buildings Commission Revenue Refunding Bonds, Project No. 68 (Second Series) for \$47,060,000.

Chairman Haydon said this bond issue was approved by the Committee at its January meeting, and no further action by the Committee is required.

Lastly, Mr. Mullis reported 29 new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Augusta Independent (Bracken County); Boone County; Bourbon County; Carter County; Casey County; Caverna Independent-2 (Barren County); Christian County; Clark County; Fayette County; Floyd County; Garrard County-2; Grant County; Graves County; Grayson County; Harrodsburg Independent (Mercer Co.); Marion County; Metcalfe County; Middlesboro Independent (Bell Co.); Morgan County; Ohio County; Powell County; Science Hill Independent (Pulaski Co.); Scott County; Webster County; West Point Independent (Hardin County); Whitley County; Williamsburg Independent (Whitley Co.); and one updated SFCC school bond issue for Greenup County.

Mr. Mullis said marketplace conditions currently present opportunities to save by refunding bonds. He said 26 school bond issues presented today are refundings. Sixteen have scheduled sale dates; 10 are pending market conditions. He said the refunding issues as a whole represent approximately \$700,000 in present value savings to the state and \$2,000,000 in savings to the school districts.

Representative Wayne made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Representative Marcotte and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Representative Marcotte asked about the savings Boone County Schools will realize as a result of school bond refundings. Mr. Mullis said the Boone County School District will save \$183,258 in present value savings, approximately 4.7%, and the county will recoup approximately \$96,000 of this amount.

Chairman Haydon said there were eight locally funded school bond issues submitted to the Committee for review this month: Boone County; Bullitt County; Burgin Independent (Mercer Co.); Christian County; Hopkins County; Jessamine County; Martin County; and Pike County. He said all disclosure information has been filed, and no further action on these bond issues is required.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded by Representative Wayne and passed by voice vote. The meeting adjourned at 9:50 a.m.